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CORPORATE PARTICIPANTS

Taco Titulaer *TomTom NV - Head of IR & Financial Communications*

Harold Goddjin *TomTom NV - CEO*

Marina Wyatt *TomTom NV - CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Humphrey *Morgan Stanley - Analyst*

Stuart Jeffrey *Nomura - Analyst*

Wim Gille *ABN AMRO Bank - Analyst*

Peter Olofsen *Kepler Cheuvreux - Analyst*

Hans Slob *Rabobank - Analyst*

James Faucette *Pacific Crest Securities - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the TomTom second quarter 2013 earnings conference call. At this time, all participants are in a listen-only mode. We will be facilitating a question and answer session towards the end of today's prepared remarks. (Operator Instructions). Please note that this conference is being recorded.

I will now turn the call over to your host for today's conference, Taco Titulaer. Please go ahead, sir.

Taco Titulaer - *TomTom NV - Head of IR & Financial Communications*

Thank you, Carol. Good afternoon, and welcome to our conference call during which we will discuss our financial results for the second quarter of 2013. With me today are Harold Goddjin, our CEO; and Marina Wyatt, TomTom's CFO. This call is being broadcast live from our website. And a recording of the call will be available shortly afterwards. As usually, I would like to point out that Safe Harbor applies.

We will start with Harold, who will discuss the operational developments, followed by a more detailed look at the quarterly financial results from Marina. We will then take your questions. The call will finish at 3 o'clock.

And with that, Harold, I would like to hand over to you.

Harold Goddjin - *TomTom NV - CEO*

Thank you, Taco. Welcome, ladies and gentlemen, and thank you for joining us today on the earnings' call. I would like to start with a summary of last quarter's financial result, and then move over to an operational review.

The results that we delivered were in line with our expectations. Revenue of the Group came in at EUR250 million, and compares to EUR262 million in the same quarter last year, and up 24% sequentially. Consumer PND revenue stabilized, despite a generally weak consumer electronics environment.

In the Automotive segment, we are facing historically low car sales in Europe, and as a consequence, we have not been able to grow our top line.

In Licensing, revenue was flat year on year. We extended the coverage of our traffic product further, and added Russia as a new territory.

Business Solutions continues to do well with 29% larger installed base. As a result, recurring revenue represented roughly two-thirds of total income, and related hardware revenue was only marginally up compared to last year.

The adjusted earnings per share was EUR0.07, and compares to EUR0.09 in the same quarter last year.

At June 30, we had a net cash position of EUR6 million. The significant reduction from this EUR86 million at the start of the year is largely explained by the receipt of an EUR80 million one-off tax refund.

Based on these results and our expectations for the remainder of the year, we maintain our guidance for the full year of revenue between EUR900 million and EUR950 million, and adjusted EPS of around EUR0.20.

I move over now to discuss some of the operational highlights. Last quarter, we started shipping a range of new products. The new PNDs have been well received by consumers, and the new PNDs are using a completely new, redesigned, software spec. The new PNDs have not contributed materially to the revenue in Q2. New features will be added rapidly, and will be made available to existing users via free-of-charge software updates.

Traffic innovation and latest map guarantee boosts usability and targets both the replacement market and first-time buyers. The TomTom sports watches started shipping early July to the US, and the European launch will follow shortly.

Response from existing and prospective Automotive customers to our new navigation software has been encouraging. It is our strategy to provide a complete set of easy-to-integrate software and service components to car makers and their suppliers for rapid and cost-effective development of in-vehicle navigation products. Our traffic and routing products are now widely seen as class leading, and in the quarter, we connected the first Daimler cars to our servers.

In Licensing, income was flat year on year. We deepened our relationship with BlackBerry with a traffic contract. Despite challenging market conditions, Business Solutions continued to grow fast. 29% more cars were connected to WEBFLEET than one year ago, which brings to a total of 269,000 connected vehicles.

New services were launched, including a tachograph service for automated, certified, driving time reporting. And we successfully launched the .connect Partner Programme which gives software developers the tools to integrate WEBFLEET information into third-party software packages. More than 70 companies support off-the-shelf integration between WEBFLEET and their own back-office solutions.

We are excited to see some of the benefits from the completely redesigned map-making platform. We're steadily moving in a world of real-time map making and automated content distribution that will dramatically improve efficiency and also will drive new levels of customer satisfaction. The new platform is an enabler for highly automated change detection and controlled community-based map improvements.

Before I hand over to Marina, I would like to summarize that we had a quarter in line with our expectations, products based on our technologies and our shipping and used internally. They're foundational to faster product and process innovation for all of our products and all of our markets.

And this concludes my part of the presentation. I hand over to Marina.

Marina Wyatt - *TomTom NV - CFO*

Thank you, Harold. I shall now begin a more detailed look at the quarterly financials.

On slide 4, we present our revenue analysis for the quarter. Group revenue was EUR250 million, which is down 4% compared to the last quarter of last year, the same quarter of last year. Consumer revenue decreased by 4% year on year, and PND revenue was flat.

The European PND market size developed as expected with a decline of around 14%. Within this market, we delivered market share of 50%, which was in line with Q1 and 6 percentage points higher than Q2 last year. And our market share gains in Europe have been driven by the more widespread inclusion of lifetime maps in our PNDs, together with specific gains in the German market.

North American PND revenue has a favorable comparison with last year, as last year ASPs were strongly affected by the GPS chip issue through returns and swaps of product. Revenue from fitness products, although still a relatively small revenue stream for Consumer, grew strongly. Consumer contributed 59% of Group revenue, which is the same level as in Q2 last year.

Automotive revenue continues to be impacted by low levels of new car sales, specifically in Southern Europe. Automotive revenue was EUR52 million, which shows an increase of EUR1 million compared to Q1 this year, and a decrease of 13% or EUR8 million compared to the same quarter of last year. Automotive revenue contributed 21% of Group revenue compared to 23% in Q2 2012.

Licensing revenue was flat and contributed 12% to Group revenue.

And overall revenue in Business Solutions in the quarter grew at 13%, while the installed base increased by 29%. And this is reflecting a lower hardware element in the revenue mix and strong growth in WEBFLEET subscriptions.

As a percentage of Group revenue, Content & Services was stable at 38% year on year.

If we move to slide 5 to look at the earnings overview, we show a gross margin for the quarter of 51%, which is 1 percentage point lower compared to the same quarter last year. Sequentially, the gross margin is 5 percentage points lower, which is because of the higher proportion of PND revenue in the overall mix.

Total operating expenses for the quarter amounted to EUR120 million, a decrease of EUR2 million, or 2%, compared to the same quarter of last year. And the year-on-year decrease was mainly the result of lower marketing expenses, which were partly offset by an increase in SG&A expenses.

Compared to the previous quarter, total operating expenses were EUR8 million higher, or 7%, and the sequential increase was mainly the result of higher R&D.

The results of the associates of EUR3 million includes a one-off gain of EUR2.5 million from the re-measurement of the 49% interest we already held when we acquired the remaining 51% of MapIT, a South African-based distribution partner. This gain is excluded from the adjusted earnings per share calculation.

The net result was EUR8 million compared to EUR9 million last year and a loss of EUR2 million in the previous quarter. The adjusted earnings per share were EUR0.07 this quarter, and adjusted earnings per share for the first half of the year were EUR0.10.

On slide 6, you find the cash flow overview. During the quarter, we generated cash from operations of EUR27 million compared to EUR19 million in the second quarter of last year. The year-on-year increase in cash flow was mainly driven by the reduced working capital utilization in the quarter compared with last year.

We received the remaining EUR10 million of the previous announced settlement with the tax authorities. Cash flow used in investing activities in the quarter was EUR24 million, EUR14 million higher than the same quarter last year. The year-on-year increase is explained by higher capitalization of internal labor related to specific Automotive contracts, and sequentially, the level is higher because of the acquisition of both MapIT and certain technology assets in the fitness space.

If we turn now to the balance sheet, the inventory level was EUR47 million, which was a decrease of EUR17 million year on year, and EUR6 million sequentially. The level of inventory is structurally lower than we used to run with in the past, although at the end of Q2, it is a bit lower than our average will be going forwards.

At the end of the quarter, accounts receivable plus other receivables and derivatives totaled EUR175 million, EUR33 million lower than last year. And we saw -- this was caused by both lower revenue but also improved collections history.

Cash and cash equivalents at the end of the quarter were EUR181 million. Our outstanding loan from our bank partners is EUR175 million, and as a result, you can see we've moved into a cash positive balance sheet position as of the end of the quarter at EUR6 million.

This concludes my part of the presentation. Operator, we'd now like to start with the Q&A session, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Harold Goddjin - *TomTom NV - CEO*

Okay, Carol, ready for the first question?

Operator

Andrew Humphrey, Morgan Stanley.

Andrew Humphrey - *Morgan Stanley - Analyst*

I think we've been surprised by how resilient some of the Consumer businesses have been, particularly in Hardware. I wonder if you could help us with the shape of that over the rest of year. And it strikes me that -- and you've done around EUR250 million of revenue in a seasonally weaker first half in Consumer, so somewhere in the region of EUR550 million might not be completely out of whack for the rest of the year.

Licensing, you've already said will be flat, so it doesn't strike me that expectations on the rest of the business would have to be too ambitious to get to the top end of your guidance. I wonder if you could just give us a couple of pointers on that.

Marina Wyatt - *TomTom NV - CFO*

Yes, I can do so. The second half of the year in Consumer will be higher than the -- will be bigger than the first half. How it tends to work is that Q3 is fairly similar and then Q4 is a bigger quarter.

Automotive tends to have a slow Q3 because of the summer factory shutdowns that we see. So typically, the first half in Automotive is stronger than the second half.

Licensing, broadly flat; and Business Solutions continues on its -- the growth path that we have seen.

So that's the pattern overall. And I think if you put all that together, we're comfortable that maintaining the guidance is the right thing to do at the revenue line, but hopefully, we do better within that level than worse within that range.

So that's really the insight I can give you.

Andrew Humphrey - *Morgan Stanley - Analyst*

And maybe just as a follow-up, you called out Germany as being particularly strong this quarter. Is that something -- do you typically have a richer mix of product in Germany than some other European markets? And is that something you'd expect to be sustained over the second half?

Marina Wyatt - *TomTom NV - CFO*

Yes. Just to be very clear, what I was referring to was our market share. And what we've seen, we've seen particularly in Germany, which is the largest European market for PNDs, that we've had significant market share gains, which has been very pleasing. And what we've been able to do is to pick up some of the market share from Navigon coming out of the market, together with the lifetime maps offer, which also has enabled us to have a richer product mix, if you like.

Andrew Humphrey - *Morgan Stanley - Analyst*

Okay. Thank you.

Marina Wyatt - *TomTom NV - CFO*

So the market in Germany is -- the Northern European markets are generally doing better than the Southern European markets in any case, so that's all added to it.

Andrew Humphrey - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Stuart Jeffrey, Nomura.

Stuart Jeffrey - *Nomura - Analyst*

I was just hoping a couple of questions, whether you could just expand on your strategy on the Watch business just to help us understand when revenues there might be material, and whether there's any marketing dollars of significance that we should look out for.

And then secondly, just on some broader market trends. I think Apple are talking about attacking the auto market, listing a number of car manufacturers as customers, or potential customers. And I was wondering if that was limiting your ability to sign contracts with the car companies at the moment, or whether you saw that being an impact in the next 12 months.

And then also, with the Wave acquisition, obviously, a lot of big premium for the social element, I guess, in Wave. And I was hoping maybe you could just talk about what you're doing on a social side with Map Share and other things to try and help tap in to that area.

Thanks.

Harold Goddjin - *TomTom NV - CEO*

Yes, Stuart, thank you. So as you know, we started to be active in the fitness market two years ago, or a year and a half ago, I think, in a partnership with Nike that resulted in a dual-branded watch, which has been successful. We gained significant market share with a product, especially North America.

We like the space. We see it as a growth area fundamentally growing both in North America and Europe. We want to have a foothold in that market and grow from that foothold.

As a result, we have decided to go into that market with our own designed watches which are well received, innovative products from a [hardware] perspective with good performance, good technical performance, short GPS acquisition time, long battery life, high accuracy, easy to use. That is going well. We're going to put some significant marketing money behind that in the fourth quarter of the year, both in North America and Europe.

And when I say significant, you need to bear in mind that it's relatively easy to target, so really specific marketing to strengthen that foothold and gain market share, and build from there with watches, but also with new products that we're thinking about over time.

Now how big that is going to be is difficult to assess. We haven't given any specific guidance, but the underlying dynamics in the fitness/health/wellbeing market are looking favorably.

So the next question is what's happening with bring-your-own device in car. You're referring specifically to an Apple announcement of a type of variant of MirrorLink application. I think it's an interesting development.

I think it will take some time before that takes hold. But it's not a bad development for us. As you know, in the Apple case, we are providing the content. We see a market developing there, but we also think that in the mid-range and higher end of the car market, resident and built-in maps and mapping applications will remain important because those maps are now increasingly part of a larger system that is driving safety as well.

So we welcome the developments in that space, and our traffic and navigation software and assets are designed to address those market developments in a cost-effective and fast way.

I referred in my presentation earlier to the renewal of our mapping platform and tools, map-making tools. We see the map as a very important asset. We see location-based services going everywhere. More and more applications have a location component. That's not going to stop; that's going to increase in importance and in relevance.

We're constantly working to -- so the underlying idea is that we make --that we're moving into a real-time map-making process. That's a long chain of events that we need to cover from community input to validation; but also distributing that content to a broad range of client applications. We're starting to see real good progress in that space. We've started to see some efficiency benefits.

But what is exciting is that [that] platform will allow us to manage and handle customer feedback in near-real time. In other words, if you make a change, then we can distribute this change to all customers in near-real time.

So that strengthens the case for community feedback, both passive feedback and active feedback, automated map-making, and the opportunity for that type of applications that you were referring to is increasing, and the value we can create through that type of applications, we can bring that back to our customers in a much shorter period of time because of that real-time and map-making platform.

Stuart Jeffrey - *Nomura - Analyst*

Thank you.

Operator

Wim Gille, ABN AMRO.

Wim Gille - *ABN AMRO Bank - Analyst*

I've got a couple of questions on the PND segment. You've been winning market share in Europe quite successfully. You already indicated that Germany had an important contribution there and that you've been gaining market share, in particular in the high end. Can you give us a bit of a rough split on where we stand with respect to GO series, Via series, and the START series?

In addition to that, you also mentioned that the new PNDs hardly had any impact on revenues in this quarter, so can you give us a bit of indication where we are with filling up the channel with these new products and what we should be expecting in respect of the second quarter revenues in this particular segment?

And finally, the market share in the USA obviously is not heading in the right direction. Can you give us an indication on what your current problems are and how you are addressing these?

Marina Wyatt - *TomTom NV - CFO*

Yes. Let me kick off on this. I think three different product ranges that you refer to, what I was saying -- the real volume ground is, and where we felt our market share was not quite where we wanted it to be, was in the mid-range. So strong in the high end, but it's a very small part of the market; strong in the low end; good in the mid-range, but we wanted to do more. And actually, bringing in lifetime maps into the offer has really helped to do that. So we've strengthened our listing there, and as a result of that, we've seen improvement in our product mix and strong ASPs.

Now in Q2, the impact of the new products, the new PND products, was minimal in the Q2 results, and that will gradually be ramping up as go through Q3, and more importantly, into Q4. Obviously, with the new product ranges, you know about this, that they have lifetime maps and they also have lifetime traffic in them as well.

So while overall consumers will pay a bit more for having those elements included, in terms of what we report in our numbers, we're also deferring a portion of that, and we will be deferring more as a result of having lifetime traffic.

The product mix is richer, but in terms of the -- and in terms of our ASPs, if you looked at them on an operational rather than an IFRS basis, you'd see them going up as a result of that. But under IFRS, we need to defer to a portion of that, so that impact gets muted.

US market share, I would say, give you one answer to that. We've moved into a position there where we are focusing less on promotional activity and more on really what is the overall performance of this business and how do we get, if you like, the best bang for our buck in the US. And that has had an impact on our market share, but that is a conscious decision and policy by us.

Hopefully, that answers the question.

Wim Gille - *ABN AMRO Bank - Analyst*

Well more or less. And I have a follow-up question with respect to the balance sheet. Obviously, you're moving into cash positive territory now. Can you give us a view on what your preferred balance sheet looks like in the future and when would it be appropriate to start discussing redistributing some of the strong cash flow that you currently see?

And in relation to that, you also refer to potential acquisitions in the future, smaller bolt-on ones. Which divisions would you like to spend money? Is it Consumer, is it Business Solutions or Automotive? Keen on where you intend to spend your money.

Marina Wyatt - *TomTom NV - CFO*

Yes. So in terms of cash, we want to -- we've still got a term loan that we need to pay down and we need to ensure that we continue to have the cash flow to do that and manage our working capital. But the other thing I have said is, yes, we want to have enough cash to be in a position where we can make relatively small bolt-on acquisitions that help us to go faster with our existing strategy.

So examples of those would be in the Business Solutions space, where we have great technology that we've developed organically and we are growing strongly. But if we can accelerate that growth by acquiring in particular companies which have a strong customer base but maybe technology-wise they're ready to move on to something else, that would be perfect for us to help us to accelerate the growth.

And other than, it's really looking at teams of people with particular technology skills that we're looking for, so relatively small bolt-on acquisitions.

Wim Gille - *ABN AMRO Bank - Analyst*

Okay.

Operator

Peter Olofsen, Kepler Cheuvreux

Peter Olofsen - *Kepler Cheuvreux - Analyst*

When looking at the R&D investments, both in the P&L and in the cash flow statements, it seems R&D investments are trending up. Is that something that is a structural trend, or is it more timing related?

And related to that, to what extent are you investing in [met] data for pedestrian applications? Is that a focus area for you?

And then a question on operating expenses. I think you previously said that OpEx in 2013 would be down a little bit from 2012. Is that still what you are looking for this year?

Marina Wyatt - *TomTom NV - CFO*

Okay. Let me kick off with talking about R&D. The R&D, we are in a targeted way, increasing the level of R&D investment, particularly in the area of maps and related assets to that.

And then in terms of the increase in capitalization, compared with last year, what that's reflecting is work on specific automotive contracts where we -- when we're working on particular customer contracts we will capitalize the development costs there, and then as we start to ship the product, we will release that amount off the balance sheet as a per unit amount proportional to every unit sale we're making.

So really the key thing that's going on in the balance sheet is automotive contracts. There is -- you can see there have been quite a lot of new products from us this year. We are bringing products to the market at the moment, so typically, when we are building specific new products and from our core technologies, there will be a higher element of capitalization, but it's mainly automotive.

And in terms of our OpEx overall for the year, I think we're looking at a similar to down a bit level from last year, just as we indicated at the start of the year. So I think it will be a bit lower, but it's not a lot lower.

Peter Olofsen - *Kepler Cheuvreux - Analyst*

Okay. And then coming back on the capitalized R&D, you said it is mainly related to automotive contracts. Are these contracts that you have already announced, or are these also related to maybe some of the new contracts that you have not communicated on yet?

Marina Wyatt - *TomTom NV - CFO*

Some of each.

The other thing in the CapEx is obviously the acquisitions as well that we've made during the second quarter. They've caused a sequential tick up.

Peter Olofsen - *Kepler Cheuvreux - Analyst*

Okay. Thank you.

Operator

Hans Slob, Rabobank.

Hans Slob - *Rabobank - Analyst*

A question on the introduction of your new fitness products. Could you say something about the retailer coverage or how many retail outlets will sell your own fitness line?

Harold Goddjin - *TomTom NV - CEO*

Yes, Hans, we are building distribution. We've started in North America to do that. We are broadly available now in mainstream retailer, and we're building very quickly in the more specialized fitness, running and outdoor stores. But the team that's responsible for doing that is very enthusiastic and is successful in opening those doors, so we're really looking forward to settle in that distribution structure.

Hans Slob - *Rabobank - Analyst*

Yes. Maybe as a follow-up, given the ramp up for marketing expenses related to this introduction, what should we pencil in for, let's say, marketing in the second half? And will this be mainly in Q4, or will this also start definitely in Q3?

Marina Wyatt - *TomTom NV - CFO*

What I want to indicate is marketing has been exceptionally low in the first half this year spend-wise because we're phasing it -- partly we tend to spend more marketing in the second half. And we've deliberately been holding back because we want to put as much weight as possible behind our new products.

So you will see a significant uptick. I would say you're looking at the back end of Q3 and into Q4 with that. So it will go up in Q3, but probably the biggest impact will be in Q4.

Hans Slob - *Rabobank - Analyst*

Okay. Thanks a lot.

Operator

James Faucette, Pacific Crest Securities.

James Faucette - *Pacific Crest Securities - Analyst*

I actually had two questions that were a little more on the long-term in nature. First, can you talk a little bit about Business Solutions and your view in terms of the long-term opportunities there? That segment right now seems to be contributing a substantial portion of the operating income and running a good profit. At the same time, we're seeing increasing interest in those types of solutions it seems in a lot of the developed markets. So I'm just wondering how you are thinking about growing that and how we should think about the margin and growth profile of that segment.

And then my second question has to do with Automotive. It seems as though a few years ago we had a lot of expectation of TomTom could enter into and win a lot of the in-dash market. I think that you've had some successes, obviously. But companies like Daimler are tending to use parts and pieces from different suppliers, and just wondering how you're thinking about that market going forward, if we'll continue to see that, or if there's an opportunity to consolidate the products and services and win more of the in-dash opportunity in the Automotive segment.

Thank you.

Harold Goddjin - *TomTom NV - CEO*

Okay. If you look at the -- let's first focus on your question about Business Solutions. I think the industry dynamics there are favorable. We see that we can generate very short payback periods for our customers; there's real efficiency gains. Typically within six months you have -- cash positive if you invest in those solutions. We see that because extremely low churn rates; average contract lasts for seven years. We see that because the market is still very fragmented, and we see it because of levels of penetration are low.

So everything around that industry is pointing to more longer-term sustainable growth rates that we could -- that we should be looking at. And we want to be in a good position, especially in Europe, to capitalize on that opportunity and grow, and grow faster than the market.

We're doing that and we believe that we're growing at about double the speed of the market. We see opportunities popping up for consolidation, especially with customers or with fleet management companies that have a good customer base but cannot because of scale issues invest in the technologies to keep competing in that space. And we see those opportunities coming up.

We look at that, but the main driver for us will remain organic growth. We've managed to develop a simple uniform back end. We're not suffering from consolidation issues, technology issues, and that means that we're running a very efficient operation where overhead costs are a lot lower than the average player in the market.

So everything is on green. We see the growth coming through, and we think we are creating very valuable business there.

If we look at the Automotive business, I think there is room for improvement in the Automotive business. I think there is an understanding also in automotive industry that things need to change and things need to be better and faster. And I think in the whole value chain, which is a horribly complex value chain at the moment, I think there is room for optimization.

There are some industry standards evolving now that will help that process. I'm referring to a new map standard called NDS which removes the need for Tier 1 vendors to compile and test their own maps and which -- so we can start delivering and supplying run time format of that map. And with that run time format, we can also start delivering upgrade services in the form of incremental updates to installed maps in vehicles.

That's exciting, especially because it will improve the end user experience, and the problem of out-of-date maps for in-built navigation systems will over time go away as a result of that, but it also simplifies the whole development cycle.

The other thing I would like to point out is that we have restructured our technology and software assets into more [component-izable] elements. Maps is one of them; traffic is another one that we deliver in an industry format now, and routing engines is another example.

So even if we don't have the whole stack, we can be of great help for Tier 1s and carmakers to do the hard bit of the technology, make it simpler, reduce complexity, and the business model for us is primarily driven by selling more content and getting market share in the map offering.

So we can do that. We can make it easier for our customers to integrate our products, reduce complexity, shorten the time to market and increase the customer satisfaction. And there's still a lot to be done, but I think we're on the right trajectory.

Operator

Thank you, sir. (Operator Instructions).

Harold Goddjin - *TomTom NV - CEO*

So if there are no further questions, I would like to thank all participants for joining this conference call. Thank you very much, and I wish you a pleasant day.

Operator

Thank you, that concludes today's conference call. Thank you for participating. You may now disconnect.
